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SUBJECT: TURKEY: DUELING REFINERIES

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1. (SBU) SUMMARY: At least three separate refinery projects in Turkey have recently been announced, emblematic of Turkey's energy hub vision and growing regional importance, as well as the progress it has made in its investment environment and economic growth. It is not clear if GOT will use strategic and political assessments in awarding licenses or step back and let the private sector choose, but it is very likely that at least one refinery may be built, with Ceyhan the leading contender for location as desired regional energy hub. End Summary.

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The Contenders  
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2. (SBU) Fitting neatly with Turkey's stated intent to develop itself as a regional energy hub, at least three separate groups have applied to the energy regulator (EMRA) for licenses for establishing refineries. Probably first in the running is an application from a partnership of Calik Energy and Indian Oil for a \$5 billion - 15 million ton capacity refinery and petrochemical complex at Ceyhan, targeting domestic consumption and export.

3. (SBU) Also targeting Ceyhan is an application from Turkish private firm Petrol Ofisi, with its Austrian stakeholder OMV, for a smaller \$2 billion - 10 million ton capacity refinery. Meanwhile, Russian Lukoil has applied for a license for a \$3 billion - 10 million ton capacity refinery in the western Black Sea town of Zonguldak. Government officials have reportedly asked Lukoil to consider locating its investment at the more eastern Black Sea town of Samsun as the counterpart energy node to Ceyhan, but the press has reported Lukoil's continuing preference for Zonguldak, where it has done its supporting analysis. Most recent reports indicate it may be bending more towards the government's preference. There are reports that another Turkish group is talking to the Iraqi government about establishing a Ceyhan refinery to process oil in exchange for fuel products for Iraq, but this has apparently not advanced to a formal application.

4. (SBU) Meanwhile, home-grown, recently privatized refiner TUPRAS has announced unspecified plans to increase its refining capacity from its existing 27.5 million tons. TUPRAS has four main refining complexes: Izmit on the Sea of Marmara, Izmir, Kirikkale near

Ankara, and Batman in the southeast.

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Who Will Decide and How?  
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15. (SBU) Although Turkey is currently importing 6 million tons of fuel products and annual consumption is expected to increase domestically and regionally, it is not clear that there is sufficient demand in the near term for all the mooted refinery projects. Shell's (minority shareholder in TUPRAS) Turkey General Manager told Energy Officer that the major oil companies were hard-pressed to understand the economic logic of all the projects and where the financing would come from. He noted that the sponsors were local players with plans to link to potential pipelines or expand in the market. He thought it might be possible that one of the projects went ahead in the near term.

16. (SBU) EMRA President Yusuf Gunay told us that EMRA would process applications as to whether they meet normal standards, including EU environmental standards, but that the economic viability -- or lack of it -- of any one project is the responsibility of the private sector applicant. All three could receive licenses. It is not clear if the GOT will weigh in on a strategic and/or political basis - like its approach to pipeline projects - like Samsun-Ceyhan oil Bosphorus bypass.

17. (SBU) Given Turkey's vision of Ceyhan as regional energy hub and new Rotterdam, and its granting of an exclusive permit to Calik Energy -- in partnership with Italian ENI -- for realizing the proposed Samsun-Ceyhan oil pipeline, this project might have a political and strategic inside track. Ahmet Calik, who is well-connected to Prime Minister Erdogan's AK Party and made his

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wealth in Turkmenistan, has yet to garner oil through-put commitments for the pipeline, but has been talking to Russian companies, including TNK-BP, and Chevron. His group has also talked to BOTAS about cooperation on construction and/or the use of facilities at the Ceyhan port. The BOTAS facilities service the mostly empty pipeline from northern Iraq, and are adjacent to the new BTC facilities. The Calik-Indian Oil partnership lost out on an earlier bid for the state refinery TUPRAS privatization in favor of a Koc-Shell partnership.

18. (SBU) Calik's application may fit the best with Turkey's vision of Ceyhan as a regional energy hub that processes a variety of hydrocarbons. Energy Minister Guler says Turkey is also very interested in Ceyhan for natural gas processing. The press has reported discussions between the GOT and Japanese Marubeni on building an LNG terminal in Ceyhan. This has long been a wish list item for the GOT in its bilateral discussions with the Russians.

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